E/CONF.39/D/83
SUMMARY
10 Oct.1962
ORIGINAL : ENGLISH

UNITED NATIONS CONFERENCE
ON THE APPLICATION OF SCIENCE AND TECHNOLOGY
FOR THE BENEFIT OF THE LESS DEVELOPED AREAS

SUMMARY

Agenda Item: D.1

Poland

THE CHOICE OF TECHNIQUES IN DEVELOPING COUNTRIES

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THE CHOICE OF TECHNIQUES IN DEVELOPING COUNTRIES.

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SUMMARY

1. In developing economy, with abundant labour supply the planning authorities may choose between two sorts of techniques of production. One is the labour intensive technique, which permits to obtain the greatest immediate output from a given investment fund. The second is a capital intensive technique which gives smaller immediate output, but permits to obtain a larger investment surplus. / As the wage fund forms a smaller part of the overall output, the residual, which can be devoted to investment is greater than in maximizing output techniques./

2. In the traditional economic thinking the emphasis was laid on labour-intensive techniques, as best suited for densly populated underdeveloped countries. In recent years however many economists advocate the use of the capital intensive techniques, arguing that it will maximise the rate of growth of the national economy.

3. The paper emphasises two factors, which can to a great extend limit the usefulness of techniques maximising the investment surplus:

a/ Firstly, the above mentioned techniques maximise the overall rate of growth of the economy only if the "initial accumulation fund" is given once for all. In such a case, the investment surplus obtained from the "initial fund" is the only source of accumulation in the country. The higher it is, the higher is the rate of growth / except for the "first year", when the increase in income is ex definitione smaller than it would be if maximising output techniques would be used/. But actually the planning authorities have also at their disposal a more or less stable "flow of income" /from taxes etc./, a part of which can every year be used for accumulation. If in this circumstances the planning authorities decide to use maximising surplus techniques the loss of the part of national income, which in the preceding case occured once / in the "first year"/ will occur year by year - because year by year the invested part of the "flow of income" will bring an increase in national o income smaller than it would be under maximising output techniques. As at the beginning of every development programe the share of the "flow" in the total accumulation fund of the economy will be much grater than the share of the "investment surplus", the negative effect of the maximising surplus policy will be more important than its

favourable effect. The overall rate of growth of the economy can thus be - during quite a long period - smaller, than if the maximising output techniques were to be used.

b/ The second factor taken into account is the effect of the technical progress on the size of the investment surplus. As technical progress leads - ceteris paribus - to the enlargement ot this surplus and therefore to the acceleration of the rate of growth of national income, the problem of "maximising the surplus" becomes less acute and more attention can be paid to the problem of employment.

4. Athough the theoretical arguments of the partisans of "maximising" the surplus" techniques are not always sound, the planning authorities may be forced by the inadequate food supply to limit the opportunity for new employment and thus to choose rather intensive techniques of production.

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